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IN THE

Supreme Court of the United States

KSR INTERNATIONAL CO.,

Petitioner,

v.

TELEFLEX INC. and
TECHNOLOGY HOLDING CO.,

Respondents.

ON WRIT OF CERTIORARI TO THE
UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

BRIEF FOR TECHNOLOGY PROPERTIES LIMITED AS *AMICUS CURIAE* SUPPORTING RESPONDENTS

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I. STATEMENT OF INTEREST OF *AMICUS CURIAE*[1]

Founded in 1989, Technology Properties Limited (TPL) is a small Silicon Valley company that acquires and develops proprietary microprocessor (the "Moore Microprocessor Patents" or "MMP" portfolio) technology. TPL is co-owner of a portfolio of eight patents based upon an original patent application filed in 1989 by Charles Moore and Russell Fish. Although the original inventors were successful in building a working microprocessor, they lacked the funds to commercialize this technology.

TPL assumed exclusive responsibility for licensing and enforcing the MMP portfolio, which was being widely infringed, on behalf of its co-owners. TPL's licensing efforts have been remarkably successful. Some of the world's pre-eminent developers of microprocessors and microprocessor-based products — Intel, Advanced Micro Devices, Hewlett Packard, Fujitsu, Sony, Seiko Epson, Olympus, Casio and Kenwood — have purchased licenses to the MMP portfolio.

TPL is using the proceeds of these licensing efforts to fund resumed development and advancement of Mr. Moore's microprocessor technology and microprocessor-based products utilizing that technology, and to fund further licensing and enforcement of the patent portfolio.

TPL is a small player in an industry dominated by large, well-established companies. As such, TPL depends upon its patent rights, and upon predictable and efficiently-enforceable patent laws, not only to fund its inventive endeavors, but also to protect its new product developments from those who, absent effective protection could, and probably would, copy without

1. Counsel for both parties have consented to the filing of this brief, and their consents have been filed with the Clerk of this Court. No counsel for either party had any role in authoring this brief, and no person other than the named *Amicus* and its counsel has made any monetary contribution to the preparation and submission of this brief. *See* Supreme Court Rules 37 and 37.6.

compensating TPL. In the absence of dependable patent rights and patent laws, TPL would not have the incentive to risk investing in further product development, or in further efforts to license and enforce its patents.

II. SUMMARY OF ARGUMENT

> When it comes to discerning and applying [legal and equitable] standards, . . . "a page of history is worth a volume of logic." *New York Trust Co. v. Eisner*, 256 U.S. 345, 349, 41 S. Ct. 506, 65 L.Ed. 963 (1921) (opinion for the Court by Holmes, J.).

eBay v. MercExchange, L.L.C., 126 S. Ct. 1837, 1842 (2006) (Roberts, C.J., concurring).

This Court should not dismantle the Federal Circuit's standards for patent obviousness absent some evidence that those standards have compromised the patent system, retarded commerce, or thwarted invention. Petitioner and its supporting *amici* have shown nothing of the kind, either statistically or anecdotally.

It is understandable that petitioner and its *amici*, large well-established companies that dominate their industries, should lobby for weaker patent protection. Their success hinges, not on vigorous enforcement of their intellectual-property rights, but on their freedom to use whatever technology they wish, free of restrictions. What they propose would undermine the presumption of validity as to most if not all issued patents. While this would secure the entrenched Goliaths' freedom to operate, it would alter the risk/return calculus upon which many small, innovative Davids, have staked their fortunes.

Petitioner's "evidence" that the "teaching, suggestion, motivation" test (also referred to as the "suggestion" test or the "motivation-to-combine" test) is too exacting, leading to the issuance of trivial patents, boils down to little more than its *ipse dixit* that the patent asserted in this case is *obviously*

obvious. This argument in itself highlights the need for objective standards. (How is a court otherwise to adjudicate this claim?)

Petitioner's further support for an ailing system is that the obviousness test precludes the judicial determination that a patent is obvious as a matter of law. But the Federal Circuit has upheld (or reversed for entry of) some half-dozen judicial determinations of obviousness in the past six months alone. In sum, by petitioner's standards, the patent system is functioning very well.

Neither is there anything to suggest that the obviousness test is either retarding commerce or thwarting invention. Indeed, petitioner and its *amici* who radically advocate destruction of the motivation-to-combine test in an attempt to weaken the patent system in the name of competition have either short memories or ulterior motives. Congress created the Federal Circuit specifically to treat the depressed climate for innovation pervading the late 1970's, when the patent system had become ineffective, and the subjective ease with which a patent could be invalidated strongly favored companies that copied over those willing to invest the time, talent, energy and money to innovate. American companies that had innovated had fallen prey to lower-priced foreign competition, and were faced with the prospect of going out of business.[2]

The Federal Circuit's strengthening the patent system "added the fuel of interest to the fire of genius," inspiring companies such as Texas Instruments in the 1980's for the first time to unleash the offensive potential of their patent portfolios against their foreign competitors. *Id.* Others followed suit. *Id.* The result has been an unprecedented two decades of prosperity marked by dramatic increases in productivity, with companies such as TPL conceived around the expectation of patent protection. Petitioner's conclusion that progress will advance

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2. Shell, G. Richard, *Make The Rules Or Your Rivals Will*, Crown Business, 2004, pp. 119-124.

unabated only if this Court intercedes to alter settled patent law is both far-fetched and self-serving. In fact, the health of commerce and the rapid pace of innovation over the decades since the Federal Circuit was created can fairly be attributed to a patent system that is, finally, working.

Far from running amok as petitioner and its *amici* claim, the Federal Circuit is doing exactly what it was created to do. Applying this Court's broad directives in *Graham v. John Deere Co.*, 383 U.S. 1 (1966) and other cases, it has articulated a unified and comprehensible body of patent law that provides specific guidance to the district courts and fairness to litigants, while yielding a record that enables appellate review. The Court of Appeals' reasoned and exacting requirements for proving obviousness lend structure and integrity to the examination of patents both in prosecution and in litigation, holding examiners and judges to objective and articulable standards in making what could otherwise be highly subjective judgments. As history has shown, these standards bring to patent law the predictability that fuels the engines of commerce and invention. The Court of Appeals' judgment should be upheld.

III. ARGUMENT

A. The Decision Requested By Petitioner And Some *Amici* Would Destroy The Presumption Of Validity As To Most If Not All Issued Patents.

In backing various inventive activity, TPL's basic assumption is that once patents have been issued by the PTO — as have the MMP portfolio patents — they will be given deference appropriate to the statutory provisions of 35 U.S.C. § 282, which provides:

> A patent shall be presumed valid. . . . The burden of establishing invalidity of a patent or any claim thereof shall rest on the party asserting such invalidity.

The presumption of patent validity is based upon the assumption of administrative correctness, *i.e.*, that once a patent has been examined by the PTO, which has appropriate expertise in the patent law and relevant technology, it should not be casually overturned.

Petitioner and some of its *amici*, however, are seeking a judicial determination that would say, in effect, that the patentability standard that has been used to issue, and to review the issuance of, more than two decades of patents is wrong. Such a determination would be tantamount to a proclamation of administrative ***incorrectness***.

That such a determination would apply "only" to so-called "combination patents" is cold comfort in view of longstanding Federal Circuit law to the effect that "virtually all [inventions] are combinations of old elements." *Environmental Designs, Ltd. v. Union Oil Co.*, 713 F.2d 693, 698 (Fed. Cir.1983); *see also Richdel, Inc. v. Sunspool Corp.*, 714 F.2d 1573, 1579-80 (Fed. Cir.1983) ("Most, if not all, inventions are combinations and mostly of old elements.").

If a so-sweeping change in decades-old law of patentability is necessary, it should be the province of Congress to create an appropriate statute, setting an effective date, and applying that statute only to patent applications filed after the effective date, and patents issuing from those applications. This approach would preserve the presumption of validity as to issued patents.

B. The Decision Requested by Petitioner and Some *Amici* Would Disadvantage Small Entrepreneurial Companies like TPL *Vis-À-Vis* Large, Well-Established Companies That Dominate their Industries.

The decision requested by petitioner and some *amici* would disadvantage small entrepreneurial companies like TPL *vis-à-vis* large, well-established companies that dominate their

industries. Companies such as TPL depend heavily upon patents for their survival.

Over the past few years, a national debate has emerged with regard to the patent system. On one side of this debate are entities, primarily the largest, most established companies in their respective industries, and those whose interests are aligned with them, who argue that there are too many patents (*e.g.*, that the PTO issues patents that, under the current standard of patentability, should never issue or that the current standard of patentability is too low) or that patents are too easily enforced (*e.g.*, that injunctions against patent infringement should not routinely issue).

The 2003 Federal Trade Commission Report[3] has provided fodder for this debate, offering criticism of the PTO and Federal Circuit. And more recent high-profile patent infringement cases like the "Blackberry" and eBay cases have brought some of these issues to the attention of a relatively wide audience.

However, the FTC Report gives short shrift to the views of companies such as TPL.

What permeates the report, and what TPL believes has unduly influenced the national debate, is a bias in favor of the large, well-established companies that occupy relatively dominant positions in their industries. This is only natural, since those companies are easy to identify and their advocates are eager to participate in proceedings such as those that led to

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3. FTC, *To Promote Innovation: The Proper Balance of Competition and Patent Law and Policy* (2003) *www.ftc.gov/os/2003/10/innovationrpt.pdf*, ("FTC Report").

the FTC Report. Not so easy to find, or — because they are often counting pennies and/or operating with few employees under excruciating time deadlines — eager to participate, are the TPL's of the world.

Consider for example the FTC statement of Cisco Systems (by Robert Barr, World Patent Counsel and Vice President of Cisco Systems) [2/28 02, at http://www.ftc.gov/opp/intellect/barrobert.doc ("Cisco Stmt.")]. At the time the FTC Report was in preparation, Cisco Systems was the crown prince of high-tech companies in the United States. As a result, as might be expected, the Cisco statement was given considerable credibility, and was cited 54 times in the Report.

Cisco's statement played down the importance of patents in Cisco's success, and played up the importance of "competition" and "open non-proprietary interfaces," and stated that the company had been accumulating patents, not to protect innovation, but to use as defensive trading chips.[4] This statement,

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4. "Cisco Systems designs and sells network equipment. Cisco was founded in 1984 and went public in 1989. Between 1984 and 1993, the first ten years, the company filed only one patent. *In 1994 the company had grown to over $1B in annual revenue. This growth was obviously not fueled by patents, it was fueled by competition and by open non-proprietary interfaces.* But in 1994, the company started a program to obtain more patents. We did this for defensive purposes, to have something to offer in cross-licenses with older companies who had large patent portfolios and used them to obtain revenue and design freedom through licensing. We filed 6 patents in 1994, and increased that each year; we are now filing over 700 patents/year. We have entered into several cross-licenses and we have been involved in several costly patent lawsuits. I would like to discuss the relationship between patents and innovation at Cisco.

   Cisco is an innovative company. Our Chief Development Officer, Mario Mazzola, defines

(Cont'd)

however, exemplifies an important, and highly relevant, blind spot of the FTC Report.

Cisco Systems is a large, well-established company, which dominates its industry.[5] As a result, it is fair to assume that it has important marketplace advantages that smaller companies do not, *e.g.*, market power, economies of scale, customer contacts, reputation, *etc.* Accordingly, it can utilize these marketplace advantages to easily win sales from smaller competitors — *so long as it has the freedom to utilize whatever technology it wishes*. For this reason, *freedom to operate* tends

(Cont'd)

> innovation as "a more efficient and creative way of providing customers with products and technology that deliver new levels of functionality and services that were previously unattainable. Innovation is more than just a new idea — it is about taking a new idea and developing it into customer value and positive business impact". We have done this, we have brought products to market that have helped create the Internet as it exists today and that have helped change the way people communicate.
>
> *My observation is that patents have not been a positive force in stimulating innovation at Cisco. Competition has been the motivator; bringing new products to market in a timely manner is critical. Everything we have done to create new products would have been done even if we could not obtain patents on the innovations and inventions contained in these products. I know this because no one has ever asked me 'can we patent this?' before deciding whether to invest time and resources into product development."*

Id.

5. US News & World Report, *Cisco's Connections*, June 18, 2006, at http://www.usnews.com/usnews/biztech/articles/060626/26best.htm ("The company's routers and switches — the two networking devices that keep the Internet humming by allowing computers to talk to one another — have captured more than 70% of the expanding 23 billion-dollar markets, according to Dell'Oro Group.")

to be the primary concern of companies like Cisco Systems. Conversely, *effective patent protection* is the primary concern of small companies wishing to compete with Cisco Systems. These two objectives are in conflict.

As a result, one might expect Cisco Systems to downplay the importance that patent protection played during the time that it was growing to become dominant in its industry. Sure enough, the Cisco statement omits a highly relevant fact — which is that Cisco's greatest growth was built not upon its own innovation, but upon *acquisition of numerous small innovative companies*.[6] It is inconceivable that Cisco would have acquired these companies if it could have merely copied their products. In other words, presumably, these small companies had intellectual property protection for their technology. In fact, a study of public records conducted by the undersigned shows that, at the time of their acquisition, these 110 companies owned 88 patents or pending patent applications which eventually issued as patents. Moreover, many of the products acquired were almost certainly software-based, protectable by copyright and not necessarily by patents. Further, many of the acquired companies were acquired within about one year after they were founded — not necessarily the time within which they would have filed patent applications.

The difference in patent-perspective, between large, well-established companies dominant in their industry, and their small, innovative (actual/potential) competitors has been documented.[7]

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6. US News & World Report, *Cisco's Connections*, June 18, 2006, at http://www.usnews.com/usnews/biztech/articles/060626/26best.htm ("Since it made its first acquisition in 1993, [Cisco] has gobbled up *a total of 110 companies* — an average of about one every six weeks for 13 years. . . . Cisco's business, *built largely through acquisition*, is booming.") (Emphasis added).

7. Hall, Branwyn H., *Exploring the Patent Explosion* (July 2004), NBER Working Paper No. W10605, available at SSRN:http://ssrn.com/

(Cont'd)

This Court should not promote "freedom to operate," *i.e.* freedom to copy, at the expense of effective patent protection. Because it is always cheaper to copy a product once it is developed than to develop that product in the first place, if copying is allowed, it inevitably drives out innovation.

C. The Notion That Patent Protection Should Be Weakened In Aid of Competition Is False.

Petitioner and some of its *amici* argue that the patent system over-protects, and ask this Court to raise the bar of patentability so as to make it harder to obtain patents and easier to invalidate them. According to these entities, the Federal Circuit's allegedly-low standard for patentability and tough standard for patent invalidation is imposing a burden on commerce and hindering competition.

Petitioner and its *amici* support this argument by asserting that the patent system "represents a carefully crafted bargain that encourages both the creation and public disclosure of new and useful advances in technology, in return for an exclusive monopoly for a limited period of time.[8] According to these advocates, "that bargain's effectiveness in inducing creative effort and disclosure depends on 'a backdrop of free competition in the exploitation of unpatented designs and innovations.'" *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 151 (1989).[9]

Yet, the quote taken from *Bonito Boats* is not only *dictum*, it has nothing to do with standards for patentability, and reprises

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(Cont'd)

abstract=563049 ("Their evidence agrees with the Zeidonis and Hall finding that patents are now primarily used for defensive purposes in semiconductors, to protect against litigation and for crosslicensing. *But we also found that patents were considered important for securing financing for startups in this industry.*") (Emphasis added.)

8. Brief for the United States As Amicus Curiae Supporting Petitioner, p. 11.

9. *Id.*

a philosophy that this Court rejected more than 30 years ago in *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 94 S. Ct. 1879, 40 L. Ed. 2d 315 (1974). In *Kewanee*, the Sixth Circuit Court of Appeals had decided that the Ohio trade secret law was preempted by the federal patent laws. The Sixth Circuit's decision was based upon the notion that, by offering patent-like protection for both patentable and unpatentable ideas under the Ohio trade secret law, the state law was in conflict with the "strong federal policy favoring free competition in ideas which do not merit patent protection," expressed in *Lear, Inc. v. Adkins*, 395 U.S. 653, 656, 89 S. Ct. 1902, 1903, 23 L. Ed. 2d 610 (1969) (referring to "recent decisions emphasizing the strong federal policy favoring free competition in ideas which do not merit patent protection. *Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225, 84 S. Ct. 784, 11 L. Ed. 2d 661 (1964); *Compco Corp. v. Day-Brite Lighting, Inc.*, 376 U.S. 234, 84 S. Ct. 779, 11 L. Ed. 2d 669 (1964).") In *Kewanee*, this Court reversed the Sixth Circuit, emphasizing that the paramount policy was the Constitutional policy underlying the *patent laws*, which were to "promote the progress of science and useful arts," giving priority to that policy over the allegedly corollary policy favoring free competition in ideas which do not merit patent protection. In a strongly worded dissent,[10] recognizing that the majority had elevated the Constitutional policy underguiding the patent laws over the policy favoring free competition in unpatented products, Mr. Justice Douglas, joined by Mr. Justice Brennan, acknowledged that the decision in *Kewanee* is "at war with the philosophy [free competition in unpatented products] of *Sears*":

> Today's decision is at war with the philosophy of *Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225, 84 S. Ct. 784, 11 L. Ed. 2d 661 and *Compco Corp. v. Day-Brite Lighting, Inc.*, 376 U.S. 234, 84 S. Ct. 779, 11 L. Ed. 2d 669. Those cases involved patents-one of a pole lamp and one of fluorescent lighting fixtures each of which was declared invalid. The

10. 416 U.S. at 495.

> lower courts held, however, that though the patents were invalid the sale of identical or confusingly similar products to the products of the patentees violated state unfair competition laws. We held that when an article is unprotected by a patent, state law may not forbid others to copy it, because every article not covered by a valid patent is in the public domain. Congress in the patent laws decided that where no patent existed, free competition should prevail; that where a patent is rightfully issued, the right to exclude others should obtain for no longer than 17 years, and that the States may not 'under some other law, such as that forbidding unfair competition, give protection of a kind that clashes with the objectives of the federal patent laws,'[FN1] 376 U.S., at 231, 84 S.Ct. at 789.
>
> FN1. Here as in *Lear, Inc. v. Adkins*, 395 U.S. 653, 674, 89 S.Ct. 1902, 1913, 23 L.Ed.2d 610, which held that a licensee of a patent is not precluded by a contract from challenging the patent, for if he were, that would defeat the policy of the patent laws: 'enforcing this contractual provision would undermine the strong federal policy favoring the full and free use of ideas in the public domain.'

Here, petitioner and its *amici* propose to go much farther than merely (as in *Kewanee*) deciding whether a state law is in conflict with the policies and objectives of the federal patent law — instead arguing that the alleged federal policy favoring free competition among unpatented ideas *circumscribes the scope of protection that may be afforded to inventions under the federal patent law.* This makes no sense, especially in view of *Kewanee.* The scope of patent protection afforded by the United States patent laws should be determined solely by reference to the Constitutional objective of promoting the

progress of science and useful arts, and not by reference to a supposed "free competition" policy.[11]

D. The Sky Is Not Falling.

Petitioner and its *amici* state variously that the Federal Circuit's suggestion test has led to a "thicket" of trivial patents and an explosion of costly litigation. Further, they claim the multitude of patents resulting from the supposedly-degraded standard of patentability that court has established now threatens to clog the very engines of commerce and innovation. But in fact there is no evidence to support these claims, and no basis in any case for attributing such dramatic recent effects to the motivation-to-combine test, which the patent courts have applied, as far back as 1938, and which the Federal Circuit has applied since 1982.

1. There Is No Evidence Of An Inundation Of Trivial Patents

Petitioner and its *amici* claim the Federal Circuit's motivation-to-combine test, which the patent courts have applied for more than sixty years to distinguish obvious from non-obvious inventions, threatens now to bring commerce — and invention itself — to a grinding halt. The hard evidence they present of this looming disaster consists of two famously "light" patents and a remand in this case for further proceedings. These, they suggest, prove that the motivation-to-combine test has led to the issuance or validation of trivial patents. But these cases prove nothing. The pumpkin trash bag patent, in fact, *never issued.* Instead, the Examiner rejected and the Board of Patent Appeals sustained the Examiner's rejection of the application *three times.* On appeal, the Federal Circuit did not direct the patent to issue. It merely held the record was devoid of the findings necessary to sustain the PTO's obviousness rejection. *In re Dembiczak*,

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11. Article I, § 8, cl. 8, of the Constitution grants to the Congress the power '(t)o promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries . . .'

175 F.3d 994, 996 (Fed. Cir. 1999). On remand, the Examiner made the required findings and the patent never issued.

The "Method of Swinging on a Swing" patent of which various *amici* complain issued but was never asserted in litigation (because it was never the patent holder's intention to enforce the patent), and was efficiently invalidated on reexamination. Neither of these examples illustrates a system on the verge of collapse. However this Court or Congress alters the legal standards for patentability, nothing will prevent applicants willing to pay the filing fee from claiming frivolous inventions and applying for trivial patents.

2. There Is No Evidence Of An Explosion Of Unnecessary Litigation

Petitioner and its *amici*, who among them hold tens if not hundreds of thousands of their own patents, also decry the supposed explosion of "unnecessary" patent litigation. (The unnecessary suits, we can suppose, are those they must defend.) But, again, they present scant evidence that any explosion of patent litigation has anything to do with the motivation-to-combine test. While petitioner and its *amici* all share the view that the patent challenged in this litigation is trivial, their sweeping criticism of the law as we know it is blunted by the fact that no court has yet disagreed with them. Their complaint seems to be that it is taking too long for the courts to decide that they are right.[12] But judicial proceedings are always costly and one party can invariably be expected to consider them unnecessary. We are heirs to a grand system of jurisprudence requiring that t's be crossed and i's be dotted to ensure fairness to litigants and ease of appellate review. If remands are more common in patent cases, although petitioner and its *amici* have presented nothing to suggest that they are, it is likely because a court of experts, the Federal Circuit, is reviewing the decisions

12. The United States argues, for example, that "those costly proceedings [arising from the remand in this case] are unnecessary." Br. at 22.

of lay judges and juries who generally have no special knowledge of either patent law or the complex subject matter—science, technology, mechanics, engineering—to which that law is typically applied.[13] If anything, the motivation-to-combine test encourages settlement, not litigation, because it yields results that can be predicted in any given case.

3. The Motivation-To-Combine Test Has Not Foreclosed Summary Judicial Determinations of Obviousness

Petitioner claims the motivation-to-combine test all but precludes summary judicial determinations of obviousness, Pet. Br. 16, 32, but that is simply wrong. While there are sound institutional reasons why the Federal Circuit could be expected to issue or affirm fewer summary decisions than do the regional circuit courts of appeals, there is not a shred of evidence to suggest that it has foreclosed judges from determining obviousness as a matter of law. Indeed, since March of this year, the Federal Circuit has affirmed (or reversed for entry of) judicial determination of obviousness in no fewer than seven cases.

a) The Federal Circuit *Should* Issue Fewer Summary Determinations Than The Regional Courts Of Appeals

If, as petitioner argues, the Federal Circuit issues or affirms few summary decisions, there are good reasons why it should. The Senate Report accompanying the legislation giving rise to the court actually predicted this would be the case:

> Although the workload per judgeship will be lighter here than in the other circuits, a reduced number of

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13. Indeed, the Federal Circuit was created expressly to bring expertise to this area of the law because, as this Court has acknowledged, most of the judiciary "is most ill-fitted to discharge the technological duties cast upon it by patent legislation." *Graham v. John Deere Co.*, 383 U.S. 1, 36 (1966).

> appeals is desirable for this court. The Court of Appeals for the Federal Circuit will be considering cases that are unusually complex and technical. Consequently, its cases will be extraordinarily time-consuming, and fewer of them will be appropriate for summary disposition than is true of the cases that make up the dockets of the regional courts of appeals.

S. Rep. 97-275 [1981], *reprinted in* 1982 U.S.C.C.A.N. No. 11, *7, **17.

Moreover, it stands to reason that a court of experts such as the Federal Circuit reviewing the work of lay judges and juries would reverse and remand with instructions more frequently than would other courts of appeals of general jurisdiction reviewing the work of district courts with similar experience and expertise.

b) When Judicial Determination Is Appropriate, The Federal Circuit Has Not Hesitated To Issue Or Affirm Such A Determination

Petitioner concludes, apparently from its own theorizing, that the motivation-to-combine test precludes judicial determinations of obviousness. But this theory does not hold up to fact. In recent months, the Federal Circuit has issued no fewer than seven decisions upholding (and even reversing for entry of) judicial determinations of obviousness. *See Dystar Textilfarben GmbH & Co. Deuetschland KG v. C.H. Patrick Co.*, No. 06-1088, __ F.3d __, 2006 WL 2806461 (Fed. Cir. October 3, 2006) (reversing trial court's denial of JMOL of obviousness); *Alza Corp. v. Mylan Labs., Inc.*, No. 06-1019, __ F.3d __, 2006 WL 2556356 (Fed. Cir. Sept. 6, 2006) (affirming district court's judgment after bench trial that invention was obvious); *Ormco Corp. v. Align Technology, Inc.*, No. 05-126, __ F.3d __, 2006 WL 2493245 (Fed. Cir. Aug. 3, 2006)

(reversing and ordering entry of summary judgment of obviousness); *Rogers v. Desa Int'l, Inc.*, No. 02-1247, 2006 WL 1965660 (Fed. Cir. Jul. 13, 2006) (unpub'd) (affirming summary judgment of obviousness); *NPF Ltd. v. Smart Parts, Inc.*, No. 05-1273, 2006 WL 1876659 (Fed. Cir. June 27, 2006) (unpub'd) (affirming JMOL that prior art rendered patent obvious); *Abbott Labs. v. Andrx Pharms., Inc.*, 452 F.3d 1331 (Fed. Cir. 2006) (holding district court abused discretion in issuing preliminary injunction because substantial questions on obviousness precluded finding of likelihood of success on merits); *In re Kahn*, 441 F.3d 977 (Fed. Cir. 2006) (affirming Board of Patent Appeals and Interferences' conclusion that invention was unpatentable as obvious).

4. There Is No Evidence That The Patent System Is Thwarting Invention Or Commerce. To The Contrary, The Health Of Commerce And The Rapid Pace Of Innovation Over The Decades Since The Federal Circuit Was Created Can Fairly Be Attributed To A Patent System That Is, Finally, Working

Petitioner and its *amici* further agree that the patent system, and the Federal Circuit's motivation-to-combine test in particular, is now thwarting innovation and commerce. But again, they pull this claim out of thin air. In fact, innovation and commerce in inventions appear to be booming. According to government figures, intellectual property accounts for over half of all U.S. exports.[14] Forty percent of the United States' economic growth comes from intellectual properties. A recent study valued the total of U.S. intellectual property at approximately $5 trillion, or about one-half of the GDP.[15] Indeed, other than petitioner's plaint in the matter at hand, neither petitioner nor any *amicus*

14. See reports and statistics cited in Kevin Hassett and Robert Shapiro, The Economic Value of Intellectual Property, www.usaforinnovation.org/news/ip-master.pdf, pp. 16-24.

15. Hassett and Shapiro at pp. 18-19.

asserts, even anecdotally, that its own or another's inventive enterprise has, in fact, been somehow thwarted or even discouraged by a trivial patent issued to another party. In the absence of any actual evidence of hindrance, the experience of the past two decades suggests that the Federal Circuit policy has been "not too hot" and "not too cold," but "just right."

What petitioner and its *amici* propose would definitely make it cheaper to infringe. (They forget that benefit would inure not only to them but to their foreign competitors as well.) But it has already been shown that patent underprotection, which they are inviting, actually *chills* innovation and commerce. At the 1979 Judicial Conference of the United States Court of Customs and Patent Appeals, held while the legislation creating the Federal Circuit was pending, Robert Benson[16] shared his observations as Chair of the Patent Subcommittee of President Carter's Advisory Committee on the Domestic Policy Review for Industrial Innovation:

> [T]he problem that we were addressing was not the patent system *per se* but the problem of innovation in the U.S. and its apparent decline. And what are the reasons for the decline? So, we were looking at this problem from the point of view of creating an atmosphere which leads to greater innovation — the invention, the R&D work which is necessary to bring it along, the engineering, the marketing — with the concept that if products never got to the marketplace, the innovation process basically failed. In this perspective, the unanimous concern of the people on this committee, and I might say that it was an opinion shared by the other committees in the domestic policy review, was the fact that there is a lack of reliability in the patent grant. Patents just

16. Chairman of the Patent Section of the ABA in 1979 and Chair of the Patent Subcommittee of President Carter's Advisory Committee on the Domestic Policy Review for Industrial Innovation.

> aren't what they used to be. The people who used to invest in a patent on the idea that the protection of the patent would justify the investment are just not doing it anymore. . . .
>
> The overall, overriding concern of our group was the reliability of the patent grant.

Judicial Conference, *A Talk Show — A Federal Appellate Court With Exclusive Patent Jurisdiction: An Idea Whose Time Has Come?* 84 F.R.D. 429, 471 (1979) (Statement of B. Robert Benson.

As the years since the inception of the Federal Circuit have shown, robust and predictable patent protection does not thwart but rather encourages innovation. The economic experiment petitioner and its supporters ask this Court to launch is one that has already failed. This Court should not experiment with a legal framework for non-obviousness that appears to be operating with great success lest, through unintended consequences of well-meaning adjustments in the law, innovation and investment be chilled. Rather, the Federal Circuit — which deals with these issues on a day-to-day basis, and is certainly well aware of the effect its decisions have upon the progress of science and useful arts, should be permitted to continue its development and application of the law of non-obviousness within the overall structure afforded by this Court's decision in *Graham*, without further strictures.

E. The Federal Circuit's Motivation-To-Combine Test Is Of A Piece With This Court's Decisions in *Graham*, *Sakraida*, *Anderson's-Black Rock*, and *United States v. Adams*.

Petitioner suggests that the Federal Circuit has quietly overruled *Graham v. John Deere*, *Sakraida v. Ag Pro, Inc.*, 425 U.S. 273 (1976), *Anderson's-Black Rock, Inc. v. Pavement Salvage Co.*, 396 U.S. 57 (1969), and *United States v. Adams*, 383 U.S. 39 (1966) — the principal decisions of this Court

amplifying the Patent Statute's requirement of non-obviousness — by insisting that a patent examiner or a defendant in litigation cannot prove patent obviousness except by showing that there existed at the time of the invention a suggestion to combine distinct prior-art references. Petitioner further claims this showing is made practically impossible by the Court of Appeals' additional requirement that the suggestion be both written and explicit.

But petitioner's account of the motivation-to-combine test simply "highlight[s] the danger inherent in focusing on isolated *dicta* rather than gleaning the law of a particular area from careful reading of the full text of a group of related precedents for all they say that is dispositive and for what they hold." *Dystar Textilfarben GmbH v. C.H. Patrick Co.*, 2006 WL 2806466 at *11. For one thing, the motivation-to-combine test is just a functional refinement of *Graham* itself, which not only admonishes courts to "resist the temptation to read into the prior art the teachings of the invention in issue," *Graham*, 383 U.S. at 36, but also invites revision of its own application "based on the insights gained through experience," *id.* at 18. For another, the Federal Circuit has *never* required that the necessary suggestion to combine be either written *or* explicit.

Petitioner urges the Court to reject the motivation-to-combine test in favor of a rule that courts simply apply *Graham* as this Court has done in the half-dozen patent obviousness cases it has heard in the last forty years. But that would invite the same haphazard application of the obviousness law that reigned in the lower courts for decades before the advent of the Federal Circuit. Inferior courts must devise standards for putting this Court's broad directives into practice. It is one thing for this Court to guard against hindsight by its own standards in a handful of cases plainly not subject to further review; it is quite another thing for patent examiners and district courts to guard against hindsight unaided by objective standards in the thousands of obviousness decisions it is their business to make

in the first instance, and for the Federal Circuit to review those decision unaided by a record of objective findings.[17]

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17. Congress acknowledged this Court's inability to hear every patent case in reporting on the legislation that gave rise to the Federal Circuit:

> "The Supreme Court now appears to be operating at — or close to — full capacity; therefore, in the future the court cannot be expected to provide much more guidance in legal issues than it now does. Yet the number and complexity of unsettled controversies in the law continues to grow. . . . Since the Supreme Court's capacity to review cases cannot be enlarged significantly, the remedy lies in some reorganization at the intermediate appellate level. . . . The creation of the Court of Appeals for the Federal Circuit provides such a forum for appeals from throughout the country in areas of the law where Congress determines that there is special need for national uniformity." S. Rep. No. 97-275 [1981], *reprinted in* 1982 U.S.C.C.A.N. 11, *3, **13.
>
> A panelist at the 1979 Judicial Conference of the United States Court of Customs and Patent Appeals observed: "There is another profound, institutional, philosophical reason why we should have the federal appellate court for the federal jurisdiction. It has to do with the easily demonstrable and demonstrated fact that the Supreme Court of the United States has rendered hopelessly inconsistent, mutually, internally contradictory decisions in *Graham v. John Deere*, *Anderson's-Black Rock* and the *"Cow Dung"* case [*Sakraida*] in the field of nonobviousness under 35 U.S.C. § 103. . . . The Supreme Court of the United States is in total legal disrepute because of these cases."

Judicial Conference, 84 F.R.D. at 474 (statement by Professor Irving Kayton)

1. The Federal Circuit has Implemented the *Graham* Standards and Advanced This Court's Directive To Guard Against Hindsight By Insisting That Determinations of Obviousness Be Supported by Explicit Findings

Petitioner and its supporting *amici* take the Federal Circuit to task for having allegedly refused to invalidate patents for plainly obvious inventions. However, when the offending decisions are read carefully, it is apparent that the Federal Circuit is not approving patents on obvious inventions, but merely requiring specific findings of fact so that a reviewing court can determine whether the obviousness decision was appropriately based upon evidence, or inappropriately based upon hindsight or vague, conclusory invocations of "common sense" or "common knowledge," without actual evidence.

Canvassing its own case law, the Federal Circuit recently made this exact point in *DyStar Textilfarben*, __ F.3d __, 2006 WL 2806466 at *9-*10, reversing the trial court's denial of the defendant's motion for JMOL of invalidity of the patent claims for obviousness:

> Our analysis in *Dembiczak* focused on an explicit teaching in the prior art not because our case law requires it, but because the Board had stated that "the [two cited] *references would have suggested* the application of . . . facial indicia to the prior art plastic trash bags." *Id.* at 1000 (emphasis added). We held the Board's obviousness determination legally insufficient because, in addition to failing to make *Graham* findings, the Board's analysis was "limited to a discussion of the ways that the multiple prior art references can be combined to read on the claimed invention", "rather than pointing to specific information in [the two references] that suggest the combination". *Id.* On appeal to this court, the Commissioner of Patents and Trademarks attempted

to defend the Board decision by laying out, using the *Graham* factors, a clear-and likely affirmable-rationale establishing the level of ordinary skill and explaining the motivation to combine. *Id.* at 1001. We declined to consider these arguments, newly raised on appeal, stating that they did "little more than highlight the shortcomings of the decision below." *Id.*

In *Ruiz,* as in *Dembiczak,* we vacated a conclusion of obviousness because the factfinder failed to make *Graham* factor findings. 234 F.3d at 660. Far from requiring evidence of an explicit motivation to combine, we suggested in *Ruiz* that there may have existed an *implicit* motivation to combine, based on testimony that the invention was an improvement over the prior art because it is "easy to install" and "low cost". *Id.* at 666. We explained that such "[e]vidence which suggests that the combination of two references would suggest the resulting improvement is one way in which to determine a reason, suggestion, or motivation to combine" and instructed the district court to consider the evidence on remand. *Id.*

Likewise, a close reading of *In re Lee* reveals that our objection was not to the Board's statement that "[t]he conclusion of obviousness may be made from common knowledge and common sense of a person of ordinary skill in the art without any specific hint or suggestion in a particular reference", but its utter failure to explain the "common knowledge and common sense" on which it relied. *See* 277 F.3d at 1341, 1344. *Lee* involved a patent combining a prior art video game instruction handbook describing a "demonstration mode" with a prior art television set having a menu display allowing video and audio adjustments. The Board, without comment, adopted

the Examiner's Answer, which merely stated that the combination of the two cited references "'would have been obvious to one of ordinary skill in the art since the demonstration mode is just a programmable feature which can be used in many different devices for providing automatic introduction by adding the proper programming software' and that 'another motivation would be that the automatic demonstration mode is user friendly and it functions as a tutorial.'" *Id.* at 1341. We explained that "[c]onclusory statements such as those here provided do not fulfill the agency's obligation" to explain all material facts relating to a motivation to combine. *Id.* at 1344. In other words, we instructed the Board to explain *why* "common sense" of an ordinary artisan seeking to solve the problem at hand would have led him to combine the references. We noted that our predecessor court held more than thirty years earlier that "common knowledge and common sense" were sufficient to establish a motivation to combine, *In re Bozek*, 416 F.2d 1385 (C.C.P.A.1969), and distinguished that case because, in Bozek, the examiner first "established that this knowledge was in the art". *Id.* at 1390. We instructed that assumptions about common sense cannot *substitute* for evidence thereof, as the Board attempted to do in *Lee*. 277 F.3d at 1345; *see also In re Zurko*, 258 F.3d 1379, 1383, 1385 (Fed.Cir.2001) (reversing as unsupported by substantial evidence a finding of motivation to combine cited references, where the Board adopted Examiner's unsupported assertion that claim limitation missing from cited references was "basic knowledge" and it "would have been nothing more than good common sense" to combine the references, and explaining that "[t]his assessment of basic knowledge and common sense was not based on any evidence in the record"); *In re Rouffet*,

> 149 F.3d 1350, 1357 (Fed.Cir.1998) (affirming finding of high level of ordinary skill and the Board's explanation as to why cited reference implicitly would suggest missing claim limitation to ordinary artisan, but reversing its reliance on high level of ordinary skill as basis of motivation to combine, and stating, "The Board did not, however, explain what specific understanding or technological principle within the knowledge of one of ordinary skill in the art would have suggested the combination. Instead, the Board merely invoked the high level of skill in the field of art. If such a rote invocation could suffice to supply a motivation to combine, the more sophisticated scientific fields would rarely, if ever, experience a patentable technical advance.")

Even the FTC Report cited by petitioner and almost every one of its supporting *amici* acknowledges that "The Federal Circuit . . . has [in its implementation of the suggestion test] sought to ensure that the PTO provides an administrative record susceptible to judicial review." FTC Report, p. 12.

Rather than being criticized for these decisions, the Federal Circuit should be applauded. Only by insisting upon a record that is susceptible to judicial review can the Federal Circuit assure that the policy and standards inherent in *Graham* and § 103 are being practiced in the trial courts and PTO.

2. The FTC Report's Discussion of the "Suggestion" Test Addresses a Nonexistent Problem

The FTC Report properly compliments the Federal Circuit for having adopted the suggestion test, FTC Report, pp. 11-12, acknowledging that the test "justifiably seeks to protect inventors from findings of obviousness based purely on hindsight" because "[g]ood ideas may well appear obvious after they had been disclosed, despite having been previously unrecognized." *Id.*

In contrast to the extreme characterizations of the Federal Circuit and its suggestion test by the petitioner and some *amici*, the only fault the Report attributes to the Federal Circuit and its suggestion test is that, in the hearings that led to the FTC Report, some participants "expressed concern . . . with some recent applications of this suggestion test," even though the "Federal Circuit's most recent articulations of the suggestion test seem to signal" a more acceptable implementation of the test. *Id.* According to the Report:

> To show that a claimed invention is obvious, some cases seem to require the PTO to point to particular items of prior art that concretely suggest how to *combine* all of the features of a claimed invention. Such an application of the suggestion test may have found that the claimed invention of the Selden patent — that is, putting a gasoline engine on a carriage — was not obvious, because there was no document that suggested that combination.
>
> Requiring concrete suggestions beyond those actually needed by a person with ordinary skill in the art, and failing to give weight to suggestions implicit from the art as a whole and from the nature of the problem to be solved, is likely to result in patents on obvious inventions and is likely to be unnecessarily detrimental to competition. The Federal Circuit's most recent articulations of the suggestion test seem to signal greater appreciation of these issues and would better facilitate implementation of the test in ways sensitive to competitive concerns.

FTC Report, p. 12

In other words, according to the Report, at the time it was written (October 2003), the Federal Circuit had already begun publishing decisions addressing the issues that concerned the

participants who had been critical of the court's earlier implementation of the suggestion test.

3. The Motivation-To-Combine Test Fairly Requires Concrete Suggestions Beyond Those Actually Needed by a Person with Ordinary Skill in the Art

Petitioner and its *amici* argue that the motivation-to-combine test, as applied, unfairly requires concrete suggestions beyond those actually needed by a person with ordinary skill in the art. This argument is wrong for two reasons. First, it incorrectly assumes that explicit suggestions are necessary under Federal Circuit authority, whereas implicit suggestions are sufficient. *Dystar Textilfarben*, 2006 WL 2806466 at *9. ("Each of the [Federal Circuit cases relied upon by petitioner and its *amici* to argue that explicit suggestions are necessary] correctly applies the suggestion test and by no means requires an explicit teaching to combine to be found in a particular prior art reference.")

Second, to the extent the motivation-to-combine test does not perfectly map the degree of suggestion actually needed by a person of ordinary skill in the art, it does not necessarily do so unfairly. The person of ordinary skill is not intended to be a real-world person in a real-world setting. Instead, the person of ordinary skill is a hypothetical person assumed to have omniscient knowledge of the relevant prior art[16] — a decidedly non-real-world setting, which gives the hypothetical person of ordinary skill a considerable advantage over a real-world person of ordinary skill. The reason that this evidence is required is to assure that obviousness has been determined on the basis of evidence, rather than by application of hindsight or vague, unsupported conclusory notions of "common sense" or "common knowledge."

Thus, to the extent the motivation-to-combine test requires a greater level of suggestion than might be necessary for a real-world person of ordinary skill — a dubious proposition in the

first place — there is good reason for it; and this arguably lesser than real-world standard is offset by the assumption that the all-knowing person of ordinary skill possesses greater than real-world knowledge of the prior art.

F. This Court Should Not Lightly Jettison The Court of Appeals' Reasoned and Exacting Requirements For Proving Obviousness.

1. An Uncertain Patent Privilege Is Little Better Than No Patent Privilege at All

"[Patent] clarity is essential to promote progress because it enables efficient investment in innovation." *Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co.*, 535 U.S. 722, 730-731 (2002). If we intend to promote the progress of science and useful arts via awarding exclusive rights to inventors, with inventors and the persons who invest in them free from the apprehension that their achievements will be copied, then courts must work to apply the patent laws in ways that are predictable and certain. An uncertain patent right — or one that purports to be certain, but rests in widely varying applications by the courts — is little better than no patent right at all. Courts have expressed an oft-cited corollary principle with regard to the attorney-client privilege.

> If we intend to serve the interests of justice by encouraging consultation with counsel free from the apprehension of disclosure, then courts must work to apply the privilege in ways that are predictable and certain. "An uncertain privilege-or one which purports to be certain, but rests in widely varying applications by the courts-is little better than no privilege."

Rhone-Poulenc Rorer Inc. v. Home Indem. Co., 32 F.3d 851, 863 (3rd Cir. 1994) (quoting *In re von Bulow*, 828 F.2d 94, 100 (2d Cir. 1987)).

Indeed, Congress expressly predicted that "[b]usiness planning will become easier as more stable and predictable [patent] law is

introduced, observing that "[t]his can have important ramifications upon our economy as a whole." The Senate Report quoted the following testimony of Harry F. Manbeck, Jr., General Patent Counsel of the General Electric Company:

> Patents, in my judgment, are a stimulus to the innovative process, which includes not only investment in research and development but also a far greater investment in facilities for producing and distributing the goods. Certainly, it is important to those who must make these investment decisions that we decrease unnecessary uncertainties in the patent system.

(96th Cong. Hearings (Statements of Harry F. Manbeck and Donald R. Dunner, May 7, 1979.)) S. Rep. 97-275 [1981], 1982 U.S.C.C.A.N. 11, *8, **16. These statements have proved prescient. The Federal Circuit's introduction of clarity and stability to patent law has been followed by an unprecedented two decades of prosperity marked by dramatic increases in productivity and profit.

2. The Motivation-To-Combine Test Lends Structure And Integrity To The Examination Of Patents Both In Prosecution And In Litigation

As the Seventh Circuit observed in 1979, "the imprecision of the 'invention' standard resulted in an inconsistent and unpredictable body of law because it required that the decision of patentability be based ultimately upon the subjective whims of the reviewing court." *Republic Indus., Inc. v. Schlage Lock Co.*, 592 F.2d 963, 967 (7th Cir. 1979). The Federal Circuit has banished subjectivity from the law of obviousness by requiring that examiners and courts explain exactly what was in the prior art (or "in the air") at the time of the invention that would have taught, suggested or motivated a person skilled in the art to combine prior references to invent a given invention. Since humans are helpless before their own subjectivity, this requirement lends structure and integrity to the examination of patents both in prosecution and in litigation by framing the exchanges that occur in those contexts. How otherwise could a patent applicant, for example, respond to an examiner's

challenge that his invention seems obvious? By saying, "well it doesn't seem obvious to me"? This approach has already failed.

IV. CONCLUSION

"[T]he patent system is one in which uniform federal standards are carefully used to promote invention." *Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225, 230 (1964). This Court must no less carefully consider petitioner's radical proposal to discard the Federal Circuit's decades-old standards for obviousness. On the one hand, petitioner and its supporting *amici* have made no showing that these standards have compromised the patent system, commerce or innovation itself. On the other hand, these standards — reflecting "insights gained through experience," as *Graham* contemplated — not only lend structure and integrity to the examination of patents, they also undergird the predictability upon which invention and commerce absolutely depend. The judgment of the Court of Appeals should be affirmed.

Respectfully submitted,

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